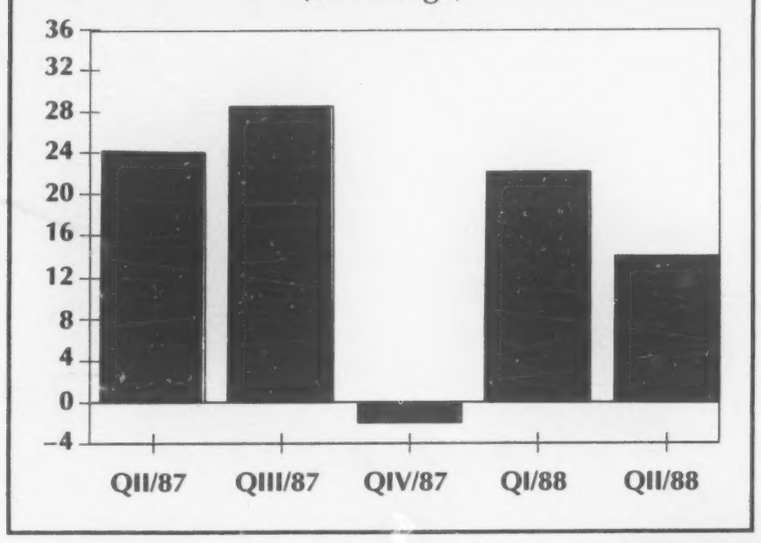
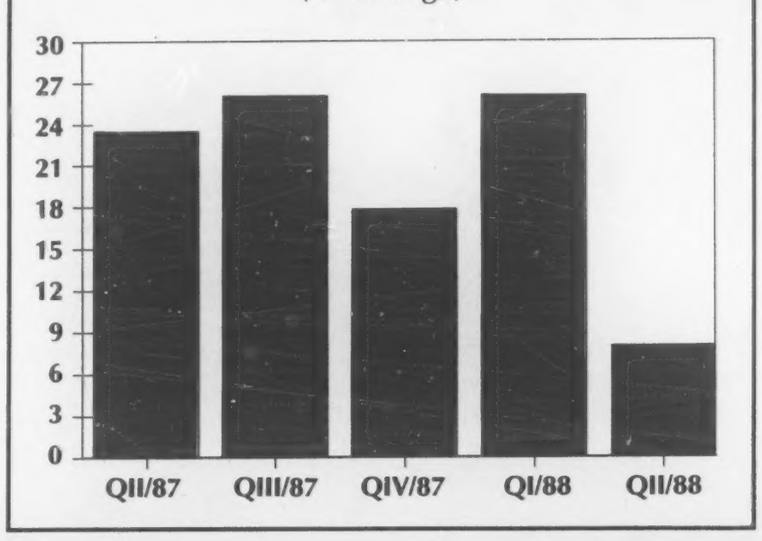
Business Watch

Section 4

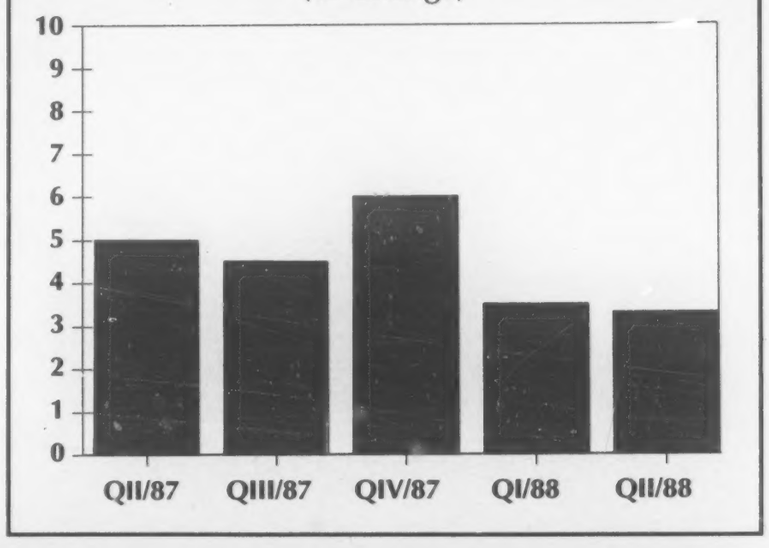
Strength in equipment demand . . .



. . . and gains in exports . . .



. . . will keep building material sales strong.



Retailers gaze into future to sort out business prospects

By Richard E. Mount
Special to NHCN

The fall forecasting season is fast approaching as building material retailers sort out their business prospects for 1989 and the years that follow.

This year, it is particularly difficult to look ahead, given the length of the current business expansion, fears of rising inflation, higher interest rates and uncertainties over the presidential election and how the winner will address the deficit problem.

The economy in 1989 will slow from its rapid pace of the last four quarters, but it will not slide into a recession. The current strength in the economy is centered in business spending on equipment, up 22 percent in the first quarter and 15 percent in the second, and exports, up 26 percent and 8 percent, respectively.

Richard E. Mount

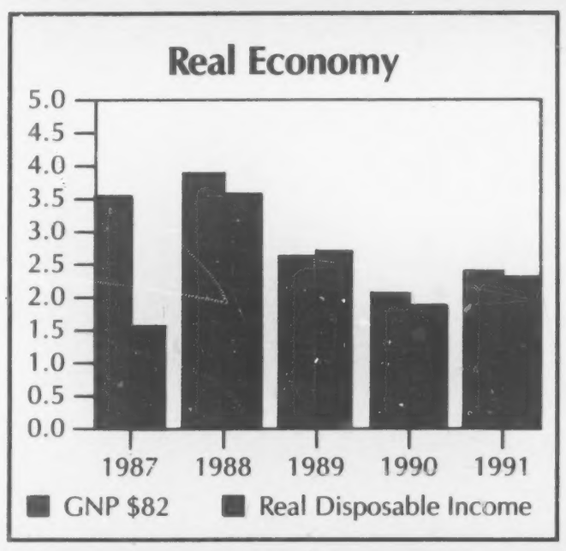
In dealing with economic and business outlook, more attention should be placed on inflationary pressures that are still well controlled. In spite of the low dollar, overseas producers are willing to lose margins to maintain market share.

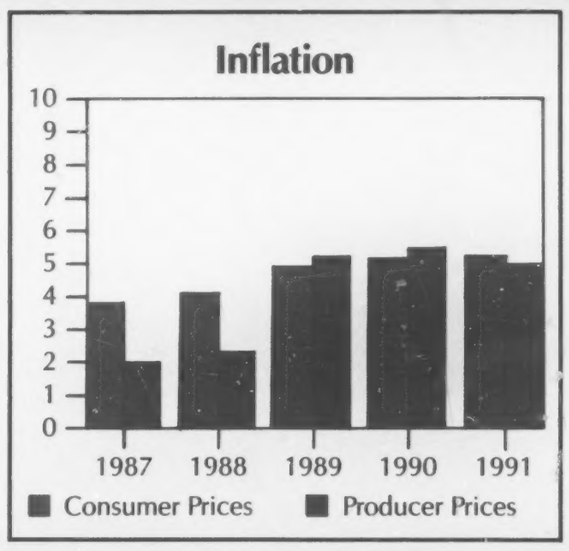
Building material retailers will continue to see slower sales gains than most retailers during 1990 and 1991 because of high mortgage rates and weaker resales and starts. For 1990, we expect a rise in unit building material sales of about 1 percent; for 1991 a stronger gain of 1.5 percent appears likely as mortgage rates decline, boosting starts and resales.

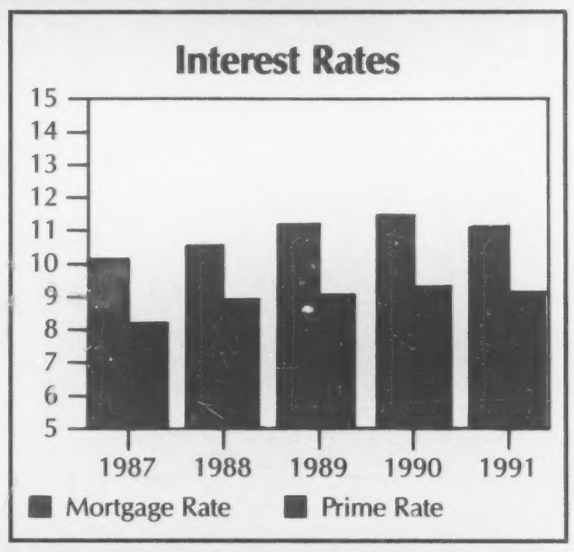
For building material retailers looking ahead to next year, it would be prudent to plan on steady but slow growth. The ongoing strength in resales seems to be able to take care of business needs through the end of this year and into early 1989. Replacement demand from strength in incomes will remain a major factor. For 1990 and 1991, an increased inventory control should be established.

Richard Mount is president and chief economist with Mount Economic Consulting.

General Business Conditions







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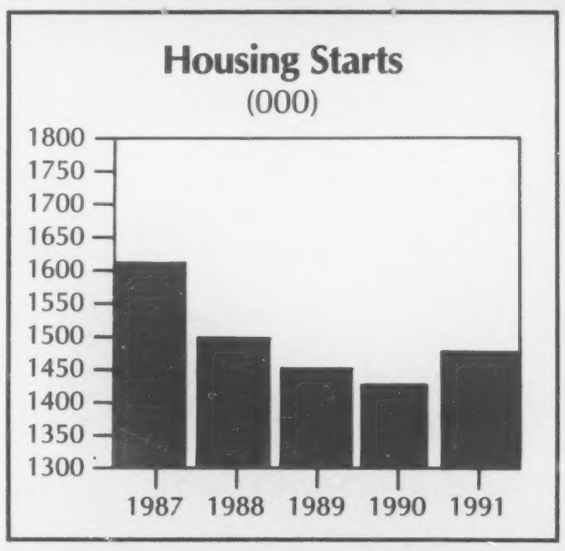

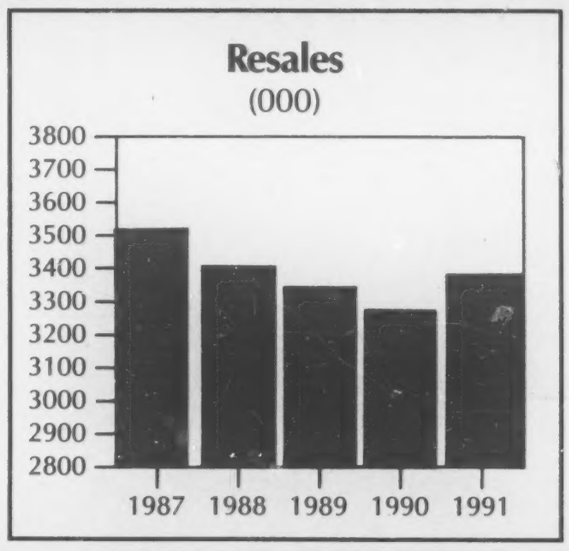

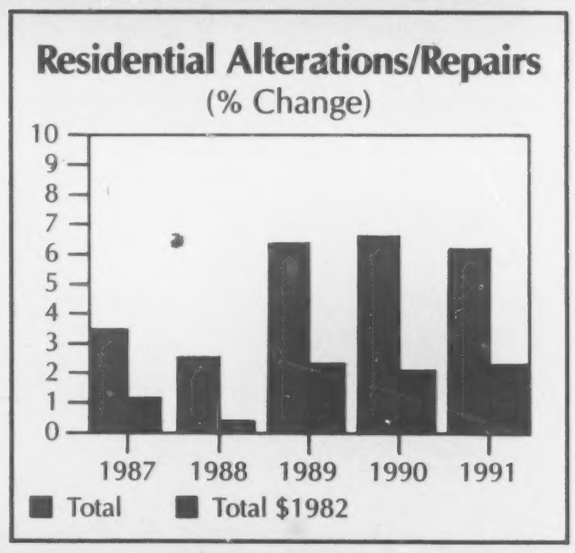

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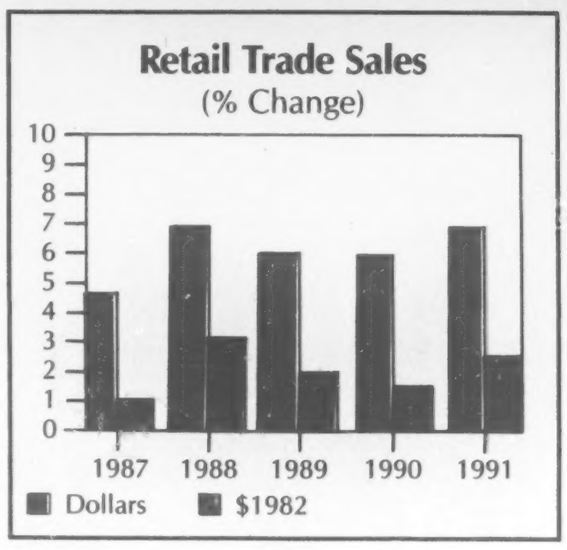

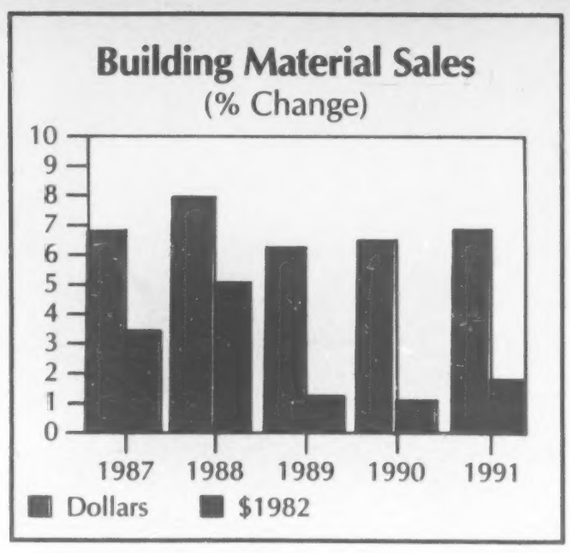

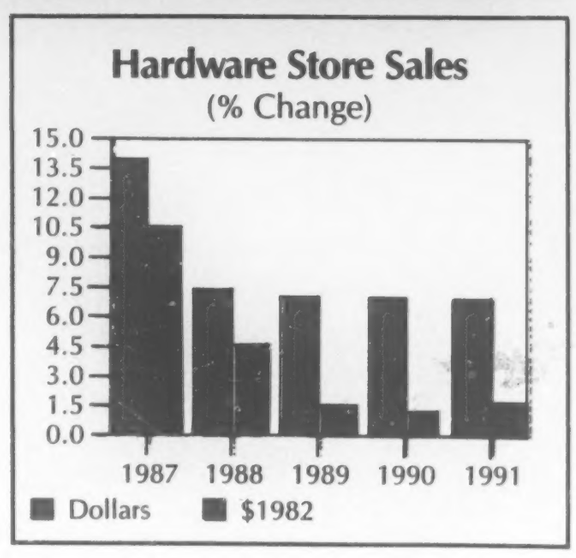

Data: Department of Commerce
Bureau of Labor Statistics
National Association of Realtors
Department of Housing and Urban Development

The Home Center Industry Outlook runs in two parts, in alternate issues. The first part includes latest data on the General Economic Outlook; Residential Alterations & Repairs; and Retail Trade Activity. The second part includes latest data on regional building material & supply store sales. The *NHCN* Leading Indicator runs every issue on page 5.

SAAR—Seasonally Adjusted Annual Rate
p—projection
NHCN chart

Vendors feeling put upon by growing dealer demands

(Continued from page 6)

Ronald Kepes, president of Crest Industries, a Miami-based importer, said retailers want Crest to shoulder the risk of importing without charging a dime for the effort.

"There is a subtle, indirect pressure born of ignorance," Kepes said. "Slowly, but surely, we're bringing them back to reality" by explaining the costs of contacts, freight, storage and risk in importing.

Terms also become an issue in price hammering.

Dating from vendors has become the forte of the warehouse chains. Now, however, even Somerville Lumber, Payless Cashways' profitable Massachusetts subsidiary, has asked suppliers for one year's dating on products shipped to its new warehouse, according to at least two suppliers contacted at last month's Hardware Show.

The demand followed management's leveraged buyout of Payless, but still underscores the competitive posture all dealers have assumed.

For some home center chains, though, empty shelves constitute a bigger worry than price, according to Home Depot's Berg.

"Price becomes a secondary issue if you don't have the product on the shelves," said Berg. "Fill ratio: we tend to be tough on that."

One supplier said that monthly service visits to Home Depots stores have recently become weekly.

The problem of keeping enough stock on hand sometimes pales compared to the problem of unloading slow-moving merchandise.

"What they seem to be after is more and more buy backs," lamented Jack Irvin, a regional sales manager for American Standard. "They want us to clean up the mistakes of their buyers."

Buyers' errors are often compounded by the ineptitude of many home center sales people, prompting retailers to seek in-store training help.

In training, 'cooperation'

Responding to numerous requests from retailers, Keystone Steel & Wire, the Peoria, Ill., supplier, has introduced a the first of a series of videos aimed at store salespeople and consumers, said Richard Cloyd, director of marketing and public affairs.

Those training efforts could represent early efforts to forge partnerships.

Roger Wallace, president and coo of Artesian Industries, Mansfield, Ohio, said such home centers as Builders Square, Handy Andy, and Grossman's have moved toward greater cooperation with vendors.

"That doesn't mean they're not demanding, but they listen and they make suggestions for things we've never thought of," Wallace said. "It's an arrangement in which both parties benefit."

Retailers urged to keep current with trends

(Continued from page 7)

and director of client services at Management Horizons division of Price Waterhouse, Dublin, Ohio, and Norbert Newman, manager-strategic merchandise programs with the National Retail Hardware Association, Indianapolis, spoke to show attendees.

Retailers are constantly bombarded with new challenges, which are always changing and increasing in number. Each year, between 2,000 and 3,000 new hardware products are offered to dealers, Heffner said. Choosing which ones should be sold is "no small challenge."

It is also more difficult to determine who those people are that are going to the stores, Heffner added. The number of single-person households is on the increase and the polarization of income that has occurred the past several years are just two variables retailers must keep in mind. And where these people are shopping also has changed. "The distinction between manufacturer, retailer and wholesaler has disappeared. It's all merchandising," said Newman.

Eclipse's Mo. store count dwindles to two

(Continued from page 5)

Eclipse's lawyer added it agreed to the provisions because "they were performance levels we could meet."

U.S. Bankruptcy Court Judge Barry Schermer declared that the St. Louis-based company shall "enter into a contract to dispose of Eclipse's interest" in DIY Warehouse, a two-unit subsidiary of Eclipse and the Erb Lumber chain. The contract stipulates a sale price of at least $65,000 for Eclipse.

Also, Eclipse's retail sales at its two remaining locations, plus the liquidation of the three closed units through Oct. 3, must be at least $1.18 million. "If the final figure is $50,000 shy of the target, I won't have a problem with it," Voglar said. However, if Eclipse falls $200,000 short, he said it would indicate the company "could not retain its place in the market the way I think it should."

The Aug. 15 court proceedings were held to determine if Eclipse, which had filed for Chapter 11 protection in June, was eligible for continued interim financing from Citicorp, the bank that has been providing funds to Eclipse since before the Chapter 11 filing.

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National
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The success of this Lowe's 60,000-square-foot prototype in Knoxville, Tenn., has led to plans for 20 more such stores by the end of 1989. NHCN photo

Lowe's plans twice the floor space in new units

By Edward McKinley

NEW YORK — The runaway success of Lowe's 60,000-square-foot experimental store in Knoxville, Tenn., has convinced the North Wilkesboro, N.C., company to begin doubling the size of its stores' selling floors, executives said at a recent meeting here.

By the end of 1989, Lowe's expects to operate nearly 20 60,000-square-foot units, starting from a current base that includes the one in Knoxville and two others nearly that large, said Cliff Oxford, vp-corporate relations.

"We are building a chain of large stores," Oxford told securities analysts meeting recently in the Grand Hyatt Hotel here.

The Knoxville experiment, under way in a former Jefferson Ward store, has taught the 296-store company that larger stores reduce opening expenses, maintain higher margins and increase turns, said Greg Bridgeford, vp-corporate development.

(continued on page 72)

Scotty's names new mgmt.; plots aggressive strategy

By John Caulfield

WINTER HAVEN, Fla. — Daryl L. Lansdale has been named the new president of Scotty's. And joining Lansdale, in the new position of executive vp-marketing, is Robert L. Swanson, who resigned as senior vp-merchandising for Lowe's Co. this spring.

Lansdale's background includes stints as president of W.R. Grace's Central Region and president of the Lonestar Hardware division of Westlake Hardware, from which he was dismissed in July.

Neither Lansdale nor Swanson could be reached for comment at press time.

Scotty's new management team, now complete, will strive to instill into the 156-unit chain an aggressiveness that has been absent for a number of years, current and former officials concede.

"We've been doing things the 'sleepy' way; now it will be an awakened way," said Amand Van Roy, managing director of GIB Group's profitable Brico Home Centers in Europe, who was named to Scotty's board of directors and is expected to serve as a consultant for several months.

In devising a new corporate strategy, Scotty's executives will scrutinize the proposals for corporate change made in a study of the chain commissioned by Scotty's from a consulting firm this summer.

On Aug. 26, GIB Group, the Belgian-based conglomerate, increased its holdings in Scotty's to 42.7 percent by paying about $28 million to purchase all the common stock held by Scotty's chairman Jim Sweet and his family.

(Continued on page 71)

SCOTTY'S
Winter Haven, Fla.

	1988	1987	1986	1985	1984	1979*
Sales ($ million)	550.8	515.3	493.9	453.4	424.5	201.2
Net income ($million)	17.5	10.3	13.5	17.5	18.1	8.4
Earnings per share (in cents)	76.0	71.0	93.0	124.0	132.0	88.0
Stores	156	141	130	116	110	71

*Year GB-Inno-BM first invested in Scotty's

Source: Scotty's annual report NHCN chart

Scotty's earnings have been lackluster recently due to intensified competition in the Florida market.

Bravers sell all assets to Erb Lumber

By Gary S. Ruderman

DETROIT — Citing health considerations and wanting to exit the highly competitive, tight-margin market, Joseph Braver and his brother sold the assets of their eight-unit chain to Erb Lumber, Birmingham, Mich.

Braver has operated for 38 years under the name Pine Lumber Cashways Stores. It had estimated 1987 sales of $20 million to $25 million, according to Erb Lumber. Four of its eight units are in the Detroit area. The chain once operated as many as 13 units in the Detroit and central Michigan area and posted sales as high as $30 million just two years ago, Braver reported previously.

(continued on page 70)

Joe Braver, president of Braver Lumber. NHCN photo 1981

High tide of 'crud' buoys sales of filtration systems

By an NHCN staff editor

NATIONAL REPORT — Every time medical waste washes up on East Coast beaches or bacteria counts

Merchandising

soar and close Midwest swimming holes, consumers start getting nervous about their drinking water and look to home centers for water filtration devices.

Demand is rising "because there's more publicity about cruddy water," explained Bill Miller, plumbing buyer for independent General Building Supply in Madera, Calif., a farming community.

Miller, like other buyers from both chains and independents, sees a boost in filtration sales that parallels media attention given to the nation's water problems. The demand is expected by vendors, too. Buyers saw as many as 15

(continued on page 71)

Exurban growth turning Pocono Mtns. holiday homes into everyday homes

By Edward McKinley

THE POCONOS, Pa. — Seeking peace and lower real estate prices, New Yorkers have pushed the suburbs ever outward from Manhattan, filling much of northern New Jersey and, more recently, spilling into northeastern Pennsylvania.

Regional Report

The migration, which reached the hamlets of Pennsylvania's scenic Pocono Mountains about three years ago, has begun to slow but still determines how the area's home centers do business.

Of the four Pennsylvania counties that lie in the Poconos, two have become the fastest growing in the state: Pike County, with a 22.1 percent gain from 1980 to 1986, and Monroe County, with a 19.1 percent increase during the

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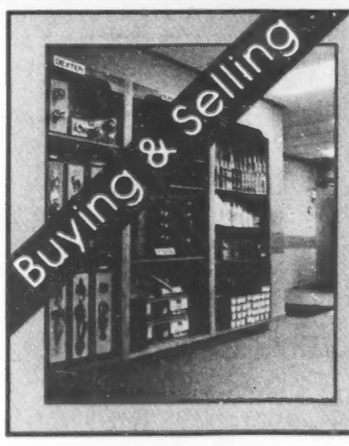

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Hot summer means hot sales for air conditioners 49

NEWSBREAKS

LLOYD FINDS BUYER: American Maize Products will sell its 34-unit Lloyd Home & Building Centers to an unnamed investor for $25 million, $10 million under book value. The Connecticut chain lost $4.5 million in the first half of 1988.

REVELSTOKE SOLD; CHAIRMAN RESIGNS: West Fraser Timber Co. will pay $3.75 per share for the Calgary-based diversified firm that runs 18 home centers. Steele Curry will resign, along with Revelstoke's president, executive vp and secretary/treasurer.

INDUSTRY UPDATE

Wickes unshaken by Drexel flap

SANTA MONICA, Calif. — A Wickes Cos. spokesman said the civil and potential criminal charges against its investment banker, Drexel Burnham Lambert, shouldn't impede the proposed LBO of Wickes by its management.

The Securities and Exchange Commission charged Drexel with 18 counts of insider trading and other securities violations, three of which directly related to its dealings with Wickes. U.S. Attorney Rudolph Giuliani is expected to file criminal charges against Drexel.

Drexel is helping Wickes officials raise the capital for their $574 million leveraged buy out of the company, and is also an investor in that deal. "At present, the S.E.C. charges are simply allegations that have been denied completely by Drexel," said Michael Sitrick, Wickes' senior vp-corporate communications. "Drexel has done a very good job for us, and we have no reason to believe that these charges will have any impact on our leveraged buy out."

He said, though, that it would be "distressing" if the S.E.C. allegations proved true.

Kadish is Handy Andy president

SCHAUMBURG, Ill. — Steven Kadish was named president of Handy Andy Home Improvement Centers Inc. Kadish, 40, joined the retailer in March 1986 from a law practice and previously was the chain's senior vp and general counsel.

He will head Handy Andy's five-member executive team as president. Ron Rashkow, chairman and ceo, relinquished the president's title Aug. 22. Last month, he was named to the board of Scotty's, a 156-unit Florida chain. Belgium's largest retailer, GIB Group, has an equity stake in both Handy Andy and Scotty's.

In other news at Handy Andy, the chain will open its 21st Chicago-area store this month on the city's southwest side. It also announced it would open three units in September and October in Toledo, Ohio, which would bring its total to 49 units in five midwestern states.

Allied, Pro halt merger talks

CHICAGO — Merger negotiations between Allied Hardware Services here and Pro Hardware, Stamford, Conn., have fallen through.

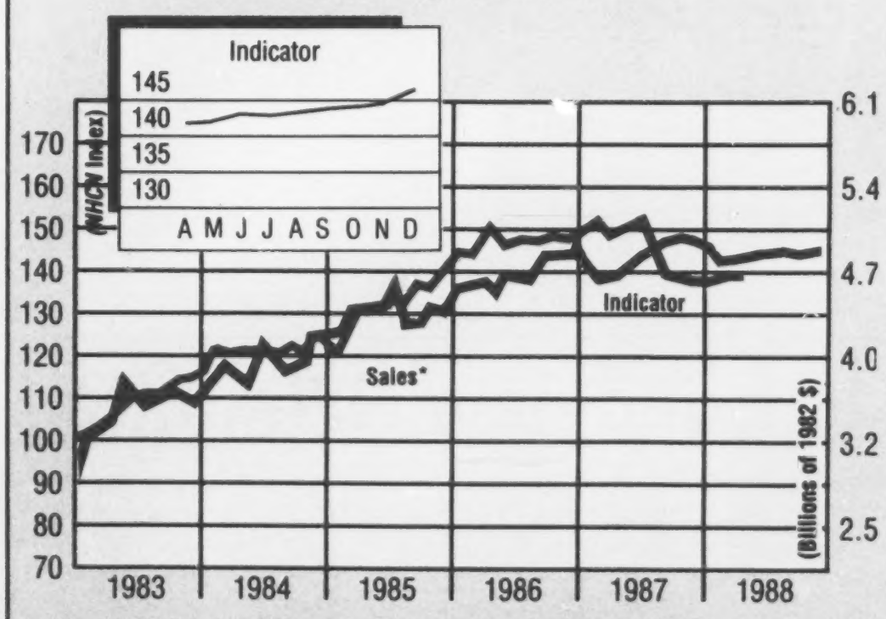
A senior industry official said merger talks between the wholesaler marketing groups collapsed before the sides were able to "define" how they would come together.

Philip Mason, president of Allied, confirmed that negotiations occurred but declined to elaborate. Gary Cosgrove, Pro president, had no comment.

Allied, with 30 wholesale members, had 1987 sales of $325 million. Pro has 15 wholesale members and 1987 sales of $615 million.

Of the two organizations, Pro has the higher profile with its 5,000 affiliated retail dealers, compared with Allied's 800 dealers.

NHCN Leading Sales Indicator



*—Monthly retail trade building materials, hardware and supplies in (1982 $).

Indicator—represents an estimate offuture building material retail sales (adjusted for inflation) relative to Jan. 1980, based on current levels of housing starts and resales, personal income, interest rates and related data.

The NHCN Leading Indicator is pointing to a small gain in building materials sales in the summer due to improvements in resales and incomes.
(Due to production requirements, the stock page will not be included in this issue.)

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Hechinger 2Q sales, earnings hit record

By an NHCN staff editor

LANDOVER, Md. — Hechinger's second quarter produced record sales and earnings for the 83-unit chain.

For the period ended July 30, Hechinger reported revenues of $284.1 million, up 39 percent for the same quarter a year ago.

The company's income totaled $15.1 million, 23 percent higher than what was recorded in the second quarter of 1987. The earnings per share, fully diluted, equaled 40 cents.

During this quarter, Hechinger changed its inventory accounting procedures to include certain warehousing, distribution and other costs as "inventory acquisition costs." Previously, these were part of the company's selling and administrative costs.

The cumulative effect of the change increased Hechinger's net income by $1.9 million, or 5 cents per share fully diluted.

In the first half of 1988, Hechinger registered revenue increases of 42 percent to $522.9 million.

Earnings, before the inventory accounting change, were $23.9 million, 21 percent higher than a year ago. Earnings per share, fully diluted, were 64 cents.

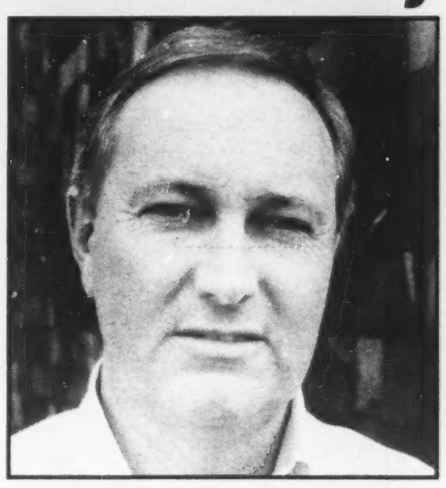
Home Depot shuffles key executives

By an NHCN staff editor

ATLANTA — The Home Depot shifted and promoted several key executives last month, and unveiled its plans to open a regional buying office to handle its Northeastern expansion next year.

The most significant promotion was Jim Inglis to executive vp-merchandising in charge of merchandising, advertising, marketing, distribution and importing for the entire 86-unit chain. He is expected to relocate to Home Depot's headquarters here from the chain's Fullerton, Calif., office, where he was West Coast vp-merchandising, within six months.

Reporting to Inglis will be Bruce Berg, who has been promoted to senior vp-merchandising, East Coast region from vp-merchandising, and Bill Hamlin, a merchandiser who fills in Inglis' former post as West Coast regional vp-merchandising.



Jim Inglis, executive vp-merchandising, Home Depot.

NHCN photo

Dennis Ryan, who joined Home Depot in 1985 as a merchandiser, has moved into the newly created position of Northeast regional vp-merchandising, assuming responsibility for Home Depot's stores scheduled to open in New Jersey and Connecticut initially in the fourth quarter of this year and through 1989.

A source familiar with the company said a regional office could be situated in South Plainfield, N.J., which is also the headquarters city for Rickel Home Centers. A chain spokesperson stated that no site has been decided upon.

Home Depot reported that its sales for the first half of 1988 increased 34.9 percent to $964,751,000. Net income for the six months ended July 31 rose 44 percent to $40,761,000 or 80 cents per share.

In the latest quarter, sales rose 36 percent to $518.6 million, and net income jumped 38 percent to $21.5 million. Comparable store sales rose 12 percent for the quarter, 13 percent for the half.

During the second quarter, Home Depot opened nine new stores and entered two new markets: Sacramento, Calif., and Greenville, S.C.

Two stores opened since the end of that quarter. Home Depot plans to open 10 new units in the fourth quarter.

PPG withdraws from Grow Group deal

By an NHCN staff editor

PITTSBURGH — PPG Industries withdrew at the 11th hour from an agreement to purchase Grow Group, but both companies declined to say if a plant fire and evacuation squelched the deal.

PPG, manufacturer of Pittsburgh Paints and other products with sales of $5.1 billion last year, had signed a definitive agreement to buy Grow Group, a New York City-based manufacturer of paints and coatings for $233 million.

PPG backed out of the deal on Sept. 6, the 10th and final day for a pull out allowed under the agreement.

Three days earlier, a fire in Grow Group's City of Commerce, Calif., swimming pool chemical plant released chlorine gas into the air, forcing the evacuation of 25,000 people.

Authorities ordered the evacuation of six square miles in the Los Angeles suburb and at least a dozen injuries were reported, leaving open the possibility of lawsuits, according to *The New York Post*.

A similar toxic release occurred about two weeks earlier and authorities had not indicated the cause.

The connection between the chlorine gas leak and the decision by PPG to break away from the proposed acquisition remains unclear. "The company is not giving any reasons why the agreement was terminated," David Green, PPG director of corporate communications told *NHCN*. "The deadline was Sept. 6 and on Sept. 6 PPG simply decided to terminate the agreement."

Reached by telephone, Russell Banks, Grow Group president and ceo, declined to comment on the failed merger or the accident.

Before calling off the deal, PPG officials had said the acquisition would broaden the company's line of paints.

"The strength in Grow Group," said David Green, PPG director of corporate communications, "is in their trade paints.

"With a number of labels aimed at different classes of business," he said, "PPG will have flexibility in marketing paint to consumers."

He said Grow Group, with sales of $382 million last year, markets paint brands that include DeVoe, Ameritone and Harris.

Grow operates 19 plants and more than 100 retail paint stores, mainly in the South, Midwest and on the West Coast, said Green.

PPG, he said, left the retail paint business by selling its stores in the last few years.

Before the deal was terminated, Vincent A. Sarni, PPG's chairman, said the transaction will "fit exceptionally well within PPG's coatings and resin group."

Banks had described the impending deal in glowing terms in a prepared statement.

"We are pleased that we have been able to achieve such an attractive transaction for our shareholders," said Banks. "We look forward to becoming part of PPG. In addition, I am particularly happy that Grow's employees will become associated with a company [that has] a reputation for outstanding employee relations."

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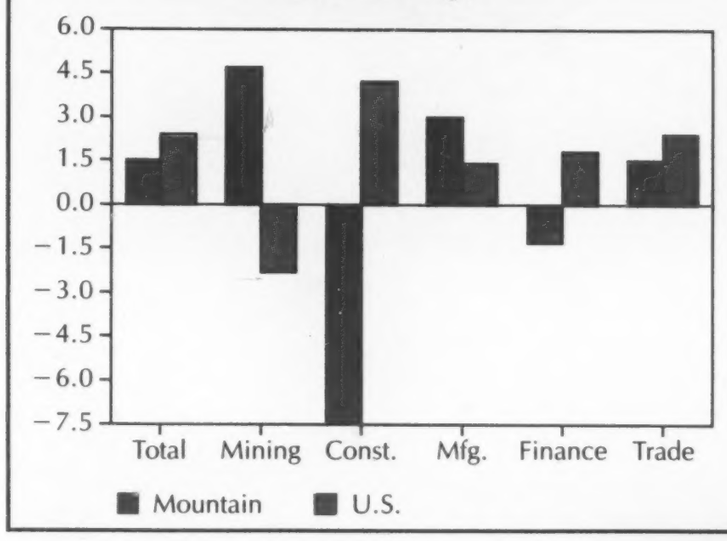
Business Watch

Section 4

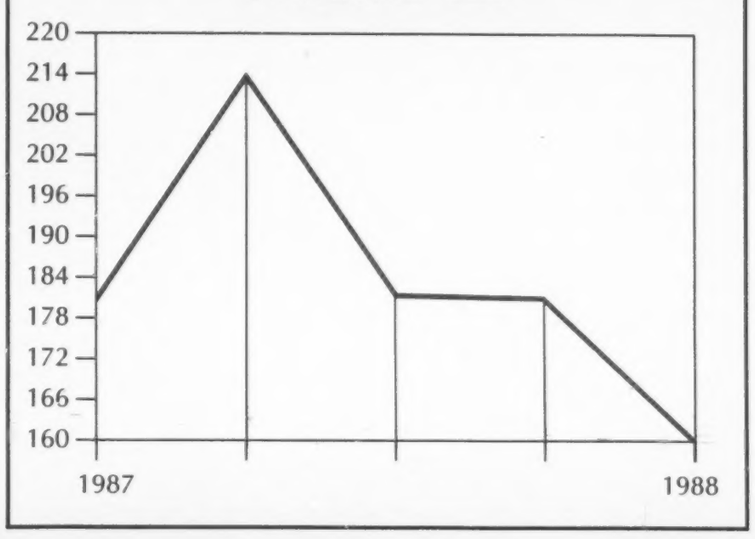
Soft gains in Mountain employment . . .

Employment Growth
One Year Ago



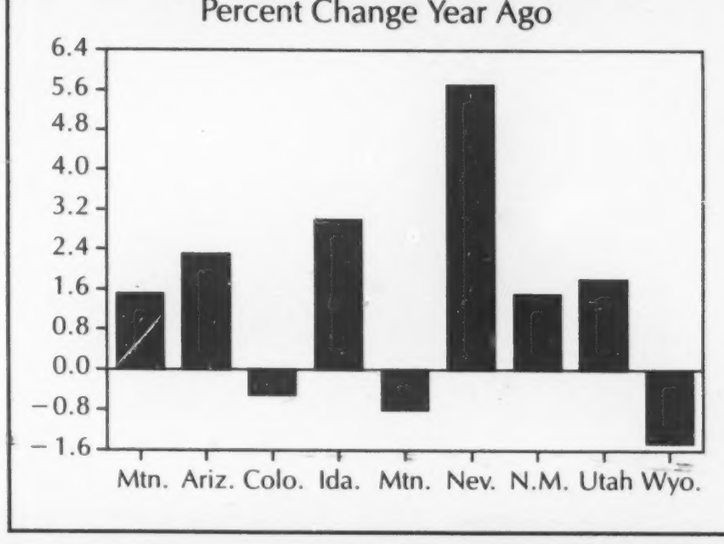
. . . and weakness in resales, plus . . .

Mountain Resales
$ Thousands - Saar



. . . problem states will hurt sales.

State Employment Gains
Percent Change Year Ago



Mountain state sales will ease off despite strong first quarter

By Richard E. Mount
Special to NHCN

Despite the strong gains in building materials sales for the Mountain states during the first quarter of 1988, sales should ease for the remainder of the year. Because of the low levels posted in the second and third quarters of 1987, sales are likely to be up 8.9 percent this year, stronger than the 8.1 percent national average. Adjusted for price increases, unit sales in the Mountain states will be up 6 percent.

Employment growth for the region is up only 1.5 percent from a year ago; nationally it is up 2.5 percent. The region is especially weak in construction—down 7.5 percent—and finance, off 0.9 percent. The good news is that the manufacturing and non-energy mining sectors, the economic mainstays for many of the states in the region, are beginning to accelerate and their strength will eventually spill over to retail trade, finance and construction.

Richard E. Mount

A major problem facing building materials retailers in the Mountain states during 1988 is the declining trend in resales. Resales peaked in the second quarter of 1987 at 212,700 units and have since declined 24.9 percent to 159,700. Resales are the best indicator of future commodities sales, and their recent softness suggests a decline in future home repairs and remodeling.

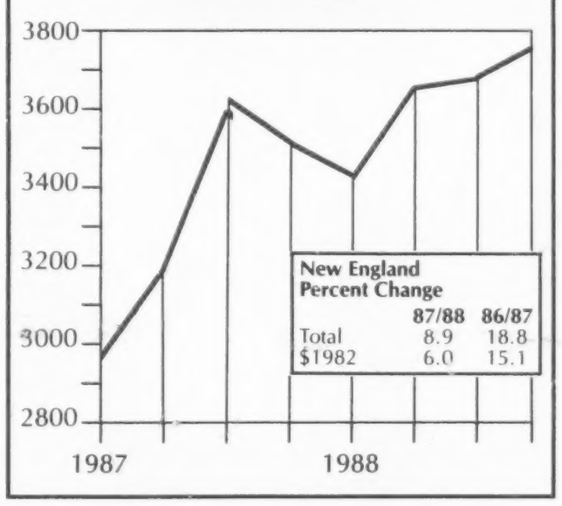
Nevada is the strongest state in the region with employment growth of 5.6 percent from a year ago, more than twice the national average. Construction employment rose 10.4 percent.

The regional economy remains soft, with the exception of Arizona and Nevada. For 1989, national building materials retail sales should rise 6.3 percent, but the Mountain states could be up only 4.8 percent. It will not be until 1990 or 1991, when energy prices begin to advance, that the Mountain states become reinvigorated.

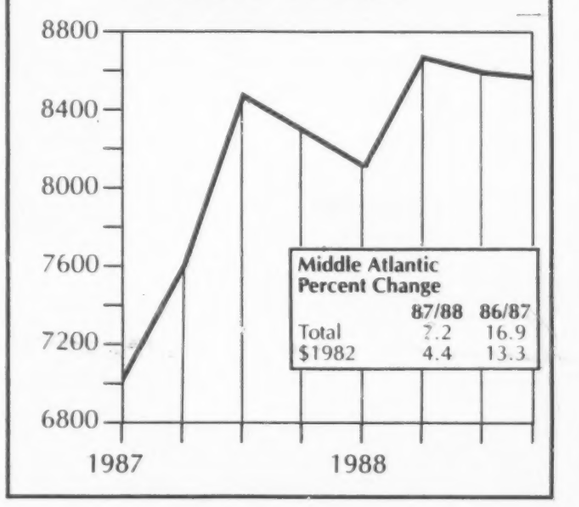
Richard Mount is president and chief economist with Mount Economic Consulting.

Regional Outlook: Building Material Sales

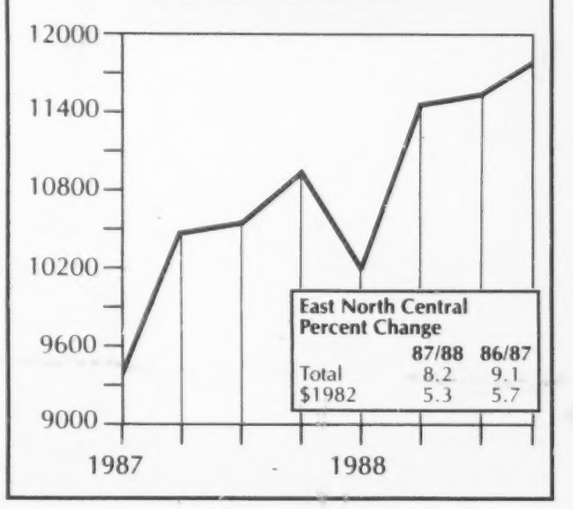
New England
Millions of Dollars



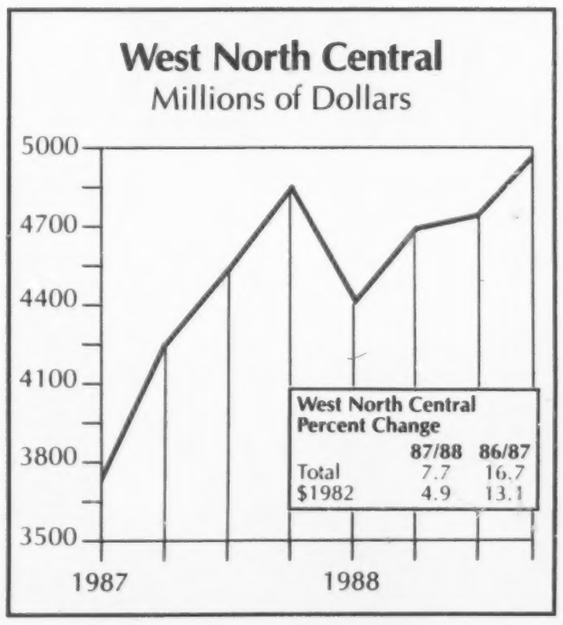
Middle Atlantic
Millions of Dollars



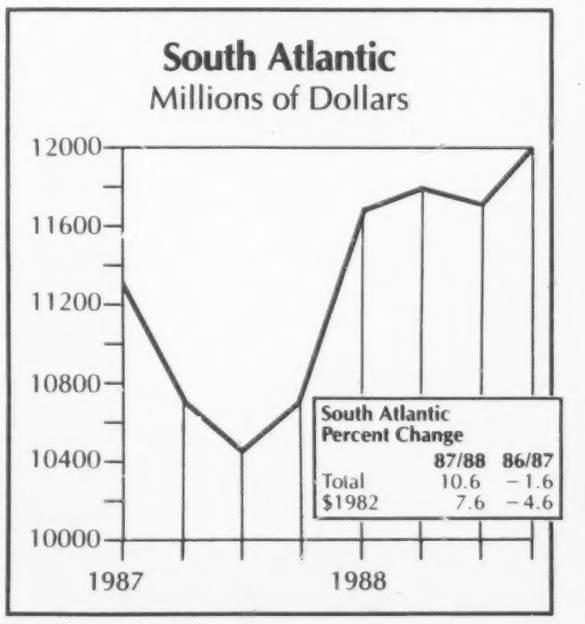
East North Central
Millions of Dollars



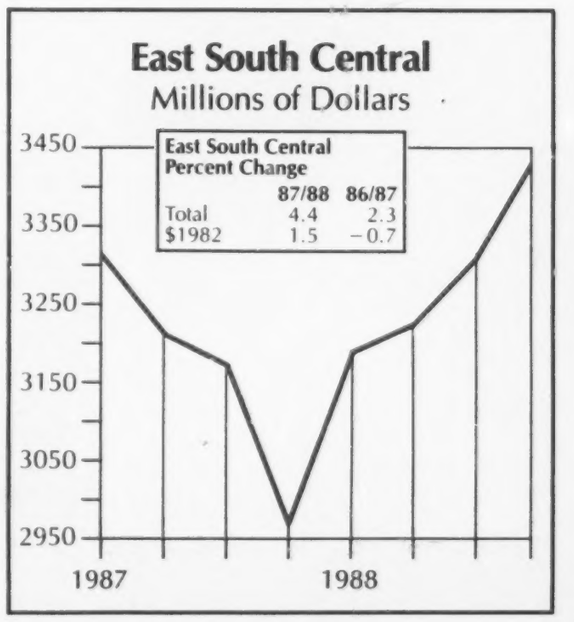
West North Central
Millions of Dollars



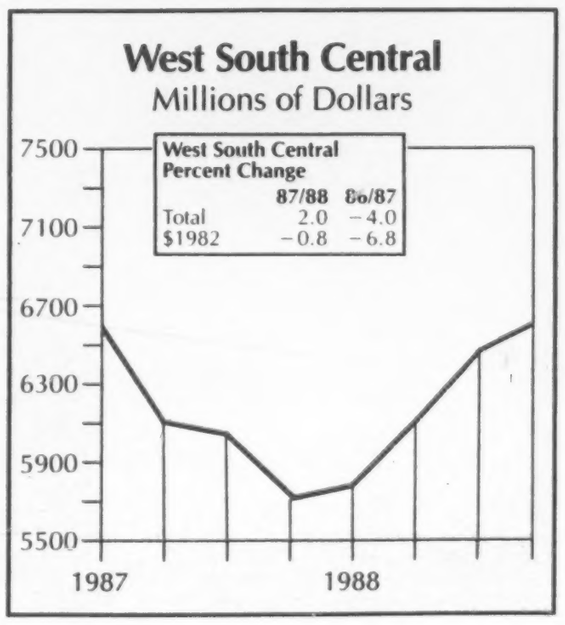
South Atlantic
Millions of Dollars



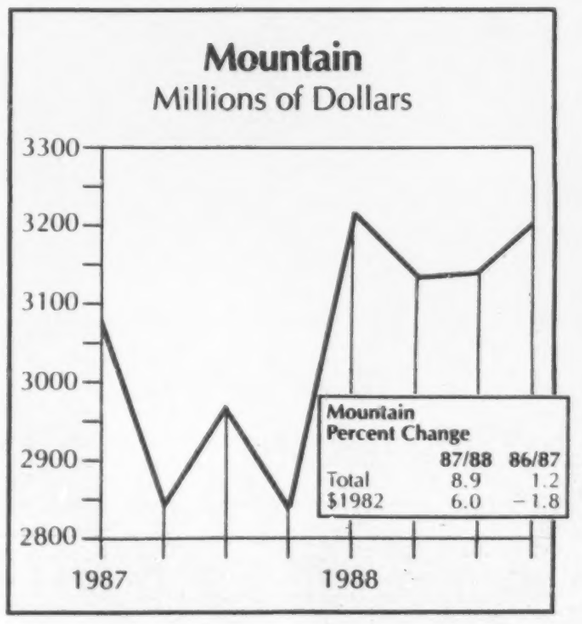
East South Central
Millions of Dollars



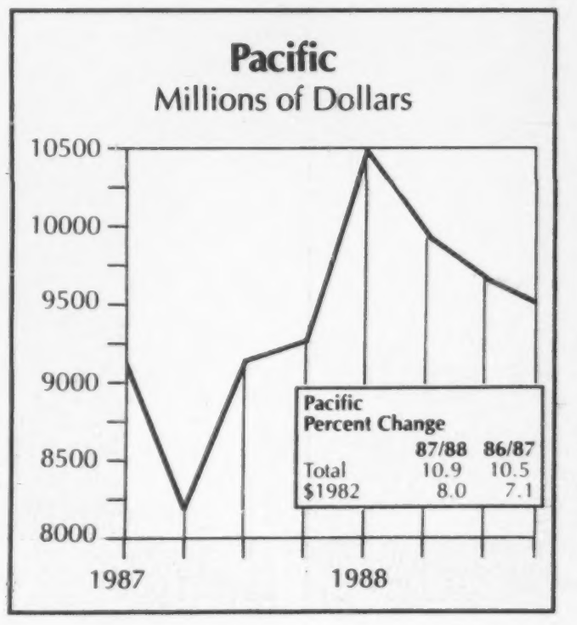
West South Central
Millions of Dollars



Mountain
Millions of Dollars



Pacific
Millions of Dollars



Data: Department of Commerce
Bureau of Labor Statistics
National Association of Realtors
Department of Housing and Urban Development

The Home Center Industry Outlook runs in two parts, in alternate issues. The first part includes latest data on the General Economic Outlook; Residential Alterations & Repairs; and Retail Trade Activity. The second part includes latest data on regional building material & supply store sales. The *NHCN* Leading Indicator runs every issue on page 5.

SAAR—Seasonally Adjusted Annual Rate
p—projection
NHCN chart